



Dave Greenspan

Cuyahoga County Council

District 1

Committee Chair: Council Operations & Intergovernmental Relations

Committee Vice Chair: Public Safety & Justice Affairs

Committee Member: Finance & Budgeting

Committee Member: Economic Development & Planning

Committee Member: Health, Human Services & Aging

MEMORANDUM

To: Members of the Cuyahoga County Council

From: Dave Greenspan, Member – District 1 

Date: October 8, 2013

Subject: Alternative Convention Center Hotel Proposal

It is my belief that a convention center hotel for Cuyahoga County is a positive component of the overall economic re-development strategy for a vibrant county and region. Furthermore, the site of the proposed project, the grounds of the currently County Administration Building, is a logical location based on its proximity to the Cleveland Convention Center and Global Center for Health Innovation.

Having stated my support for the concept I must further state that I strongly object to the current financing plan and ownership structure. To be direct – ***I do not believe that the County should be in the hotel business nor do I believe that the taxpayers of the County should incur the nearly quarter of a billion dollars in debt projected to underwrite the project.***

I do support the concept of readying the current County Administration Building site for re-development. I further believe that the costs incurred for the early relocation of current county operations and related green field costs are worthy investments in the project and are needed to make the prospect of attracting a hotel developer more viable.

Call to Action: My request is that the County continues along with its current relocation and green field preparedness plans but that it discontinues developing the concept of a county owned convention center hotel facility. The County should immediately release a revised proposal to sell the fully remediated site with the express direction that the site be developed as a four star convention center hotel in comparable size and scope to the current county plan.

In so doing, the county achieves its stated objective of attracting a hotel to support the growing convention industry in Northeast Ohio without being embroiled in a complicated ownership structure or incurring the fiscal obligations for the facility. Additionally, the County will achieve savings of between \$123 million and over \$168 million over the next 27 years (see exhibit A) and will be in a better financial position should it be deemed necessary, to provide additional debt capacity for various other projects throughout the county. These two models do not contemplate any proceeds from the sale of the current administration site.

Two additional considerations that should be contemplated regarding the current proposal are the variables related to the construction and financing costs of the project. If either one or both

of these elements realize the slightest increase than it is conceivable that the cost of the project will exceed the projections presented to satisfy the debt. If this occurs, then the General Fund reserves may be called upon to satisfy the debt service shortfall.

I encourage my colleagues to support this alternative plan, rescind all resolutions, ordinances and/or other spending authorizations on any and all hotel related expenditures or encumbrances not related to the expedited relocation and green field remediation plans, and insist that the county immediately move forward as recommended above.

I am available for questions and comments and would welcome the opportunity to discuss this further.

Exhibit 1

Scenario 1

Clean Site Proposal - Re-bid and Hotel Built by Developer

Savings:

GCHI/Convention Center Project Residual *	\$ 38,000,000
Sales Tax Exemption (\$7,680,000 x 25% - County Portion)*	1,920,000
Residual revenue GCHI/convention center plan (2014 through 2027 - \$6,250,000 x 14 yrs) *	87,500,000
Hotel Occupancy Tax (\$1,800,000 *65%) (City and County Tax 3% +5.5% - 65%)x 2016 through 2044 - 27 years) *	31,590,000
Non-School Property Tax (\$750,000 x 50% to Cuyahoga County 2017-2044) *	10,125,000
Property Tax Revenue from Hotel - Net Operating Income Method (2017-2044)	<u>11,370,732</u>
Total Savings	<u>\$ 180,505,732</u>

Costs To Clean Site by December 31, 2013:

Costs associated with early move *	(1,142,000)
Re-Coup Architectual Fees **	(1,500,000)
Estimated Costs to demolish/remediate site***	<u>(10,000,000)</u>
Total Costs	<u>\$ (12,642,000)</u>

Net Savings to Cuyahoga County

Source:

* Cuyahoga County Convention Hotel Project, August 13, 2013, Council Work Session

** Resolution Number R2013-0171

*** Need True Estimate from Public Works

Scenario 2

Clean Site Proposal - No Hotel Built

Savings:

GCHI/Convention Center Project Residual *	\$ 38,000,000
Residual revenue GCHI/convention center plan (2014 through 2027 - \$6,250,000 x 14 yrs) *	87,500,000
Non-School Property Tax (\$750,000 x 50% to Cuyahoga County 2017-2044) *	<u>10,125,000</u>
Total Savings	<u>\$ 135,625,000</u>

Costs To Clean Site by December 31, 2013:

Costs associated with early move *	(1,142,000)
Re-Coup Architectual Fees **	(1,500,000)
Costs to demolish/remediate site***	<u>(10,000,000)</u>
Total Costs	<u>\$ (12,642,000)</u>

Net Savings to Cuyahoga County

Source:

* Cuyahoga County Convention Hotel Project, August 13, 2013, Council Work Session

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Cuyahoga County Convention Hotel Project

August 13, 2013

Council Work Session

Agenda

- Information about the Project
 - Scope
 - Schedule
 - Sources and Uses of Funds
 - Governance
- Information about the Criteria Architect Selection

Current Scope

- Meeting room space
- Breakout rooms
- Large meeting rooms
- Large ballroom
- Direct connection to Convention Center
- Amenities of 4 star nationally accredited convention hotel

*MARKET STUDY WITH
FINANCIAL PROJECTIONS*

PROPOSED CONVENTION CENTER HOTEL
CLEVELAND, OHIO

PREPARED FOR:
POSITIVELY CLEVELAND
CLEVELAND, OHIO

PREPARED BY:
PKF CONSULTING
PHILADELPHIA, PENNSYLVANIA

DATE OF THE REPORT:
MAY 30, 2013

PKF
CONSULTING
USA

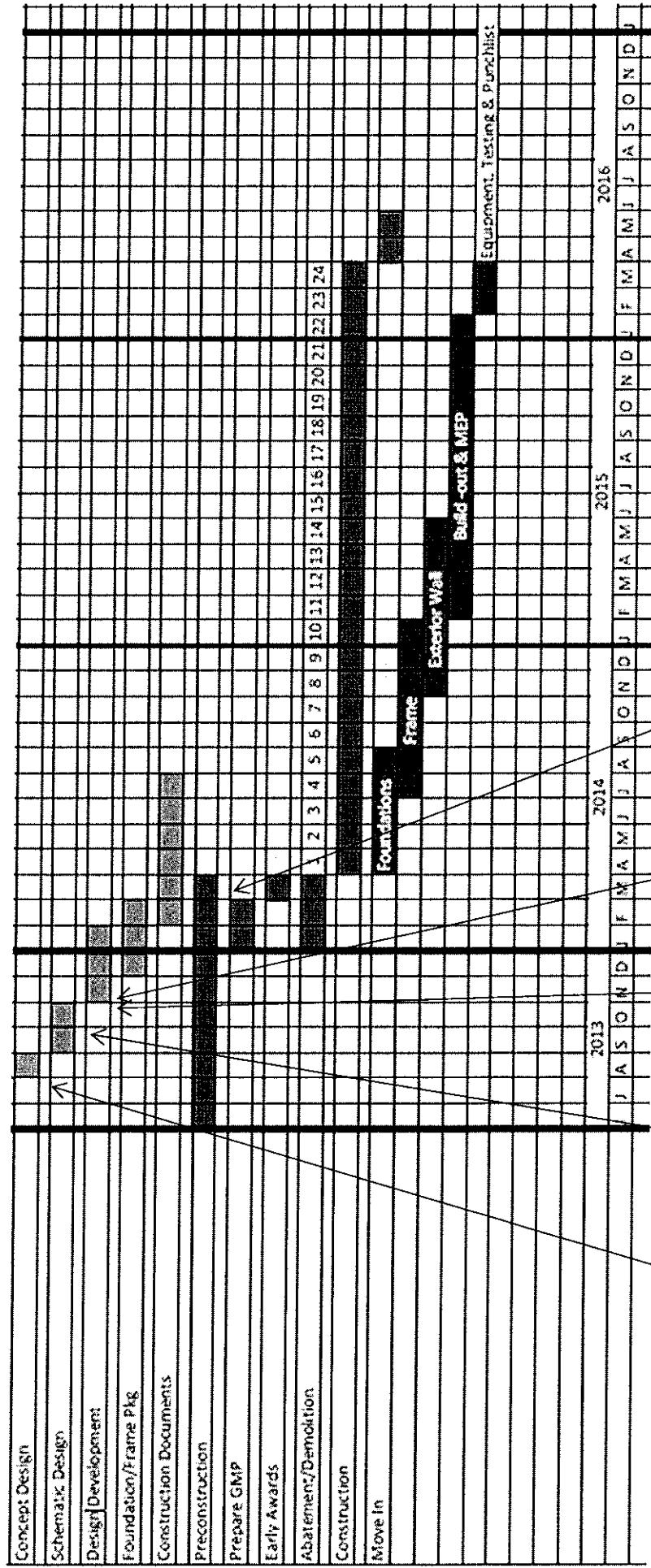
**HOTELS ATTACHED
TO CONVENTION CENTERS**

City	Hotel	# of Rooms
Cincinnati:	Millenium	872
Columbus:	Hyatt Regency	486
Indianapolis:	Hilton	532
Louisville:	Hyatt Regency	633
Pittsburgh:	Hyatt Regency	499
	Marriott	622
	Westin	573
	Marriott	616
	Westin	616
Average Number of Rooms		<u>605</u>

DOWNTOWN CLEVELAND HOTEL MARKET THEORETICAL ROOM BLOCKS

Hotel	Rooms	Convention "Block"		Rooms
		%	Rooms	
Renaissance	491	60%	295	
Westin (new)	484	60%	290	
Marriott	400	50%	200	
Doubletree	379	60%	227	
Hyatt Regency	293	40%	117	
Hilton Garden Inn	240	40%	96	
Ritz-Carlton	205	0%	0	
Wyndham	205	20%	41	
Hampton Inn	194	20%	39	
Residence Inn	175	20%	35	
Drury Hotel (new)	175	40%	70	
University Inn	160	20%	32	
aloft (new)	150	10%	15	
Radisson	142	20%	28	
Holiday Inn Express	141	10%	14	
Comfort Inn	130	10%	13	
Totals/Averages	<u>3,964</u>	<u>38%</u>	<u>1,513</u>	
"Shortage" to 2,000 Goal			487	
Commitment % of HQ Hotel			<u>80%</u>	
Rooms Supported at HQ Hotel			<u>609</u>	

Hotel Conceptual Schedule



Select Criteria Architect

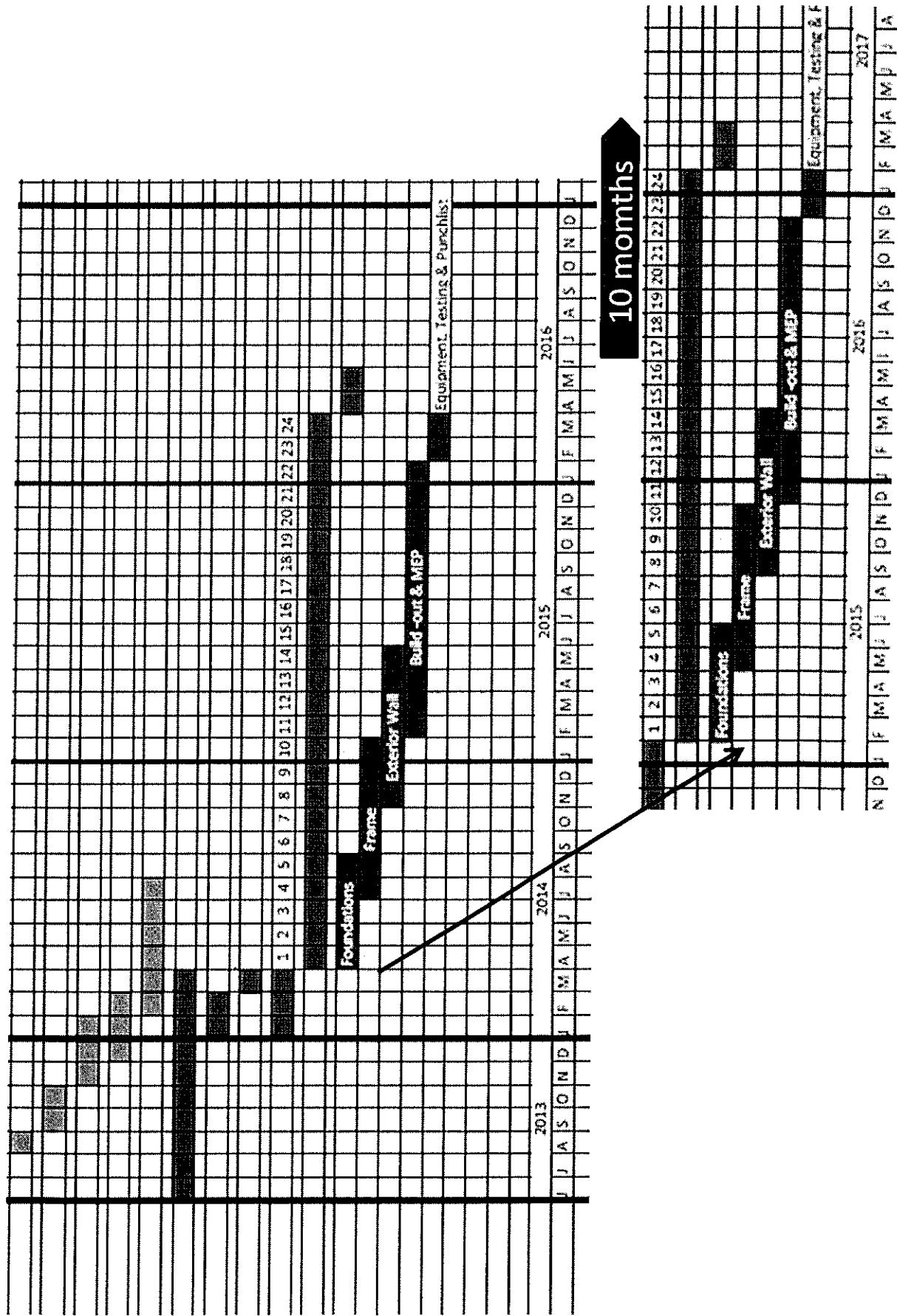
Select Operator/Brand

Select Design Builder

Cooperative Agreement

Issue COPS

Hotel Conceptual Schedule



Cost Savings Generated by 2016 Schedule

- Winter Weather/Protection-- \$1M
 - Schedule lays out better for foundations, exterior wall/enclosure.
- Cost Escalation -- \$5.8M (\$7M)
 - Assume 3.5% x 10 mos x \$200M
 - Note: Current Factor is 4.4% (7.3M)
- Extended Soft Costs -- \$1M+ (\$2.1M)
- Lost Hotel NOI (in excess of debt service) \$.80M
- Lost Convention Center Revenue/Business \$ ____
- Financing Cost
- Cost of "Double Move" \$1,142,000

Possible estimated Temporary move costs

Consultant	\$110,000
Movers	\$150,000
IT moves	\$385,000
Toshiba	\$ 12,000
Lease space	\$385,000
In house build out	<u>\$100,000</u>
Estimated Total	\$1,142,000

Construction Milestone Approval

Dates

- Criteria Architect
 - Counsel authorization for Initial Scope and negotiation with proposed architect – 8/13/2012
 - Counsel approval of full services agreement – within 90 days
 - Includes engineering and other design consultants

Construction Milestone Approval Dates

- Design Builder

• RFQ Issued	8/5/2013
• Qualifications Due	8/21/2013
• RFP Issued to the Short-Listed Firms	8/30/2013
• Proposals Due	9/23/2013
• Design-Builder Interviews	9/26-27, 2013
• Selection/Notification of Design/Builder	9/30, 2013
• Recommendation/Authorization of Counsel	10/01/2013
• Counsel Approval of Design Build Agreement	Within 60 days
• Counsel Approval of GMP Amendment	04/1/2013

Operator Milestone Approval Dates

- Hotel Operator

- RFP Issued 6/29/13
- Deadline for submitting proposals 7/29/13
- County to notify Proposers who will be interviewed 8/01/13
- County to conduct interviews with short listed Proposers 8/6 and 8/7/13
- Counsel recommendation and authorization Prior to 9/3/13
- Counsel approval of final agreement Within 90 days

Design Reviews

- We should develop an informal process for regular review of “design in process”
- There will be a formal presentation of Schematic Design and Design Development
 - Schematic Design Mid October 2013
 - Design Development Early January 2013
- Design Process starts with Public Meeting last Thursday!

Sources and Uses of Funds

• Net Bond Proceeds	\$206,650,000
• GCHI/Convention Center Project Residual	38,000,000
• City Contribution	8,000,000
• Sales Tax Exemption	7,680,000
• Public/Private Equity or Private Loan	10,000,000
• Total Sources	<hr/> \$270,330,000
• Construction Development Estimate	\$260,000,000
• Interest Costs During Construction	10,330,000
• Total Uses	<hr/> \$270,330,000

Note: All economic and cost models in this presentation are very preliminary and subject to change. Variables include (but are not limited to):

Scope of Agreed Program and Design
Construction Costs
Interest Rates
Contract Terms

Proposed Financing Arrangements

- Between \$200 and \$220 M certificates of participation
- Identified revenue streams for the certificates include (currently estimated annual amounts):
 - Annual net income from the hotel:
\$8,000,000
 - Project specific hotel occupancy tax: \$1,800,000
 - Project specific non-school property tax:
\$750,000
 - Residual revenue GCHI/convention center plan
\$6,250,000
(through 2027 only):

Hotel Revenue Available for Debt Service

- **Assumed Hotel Economics:**

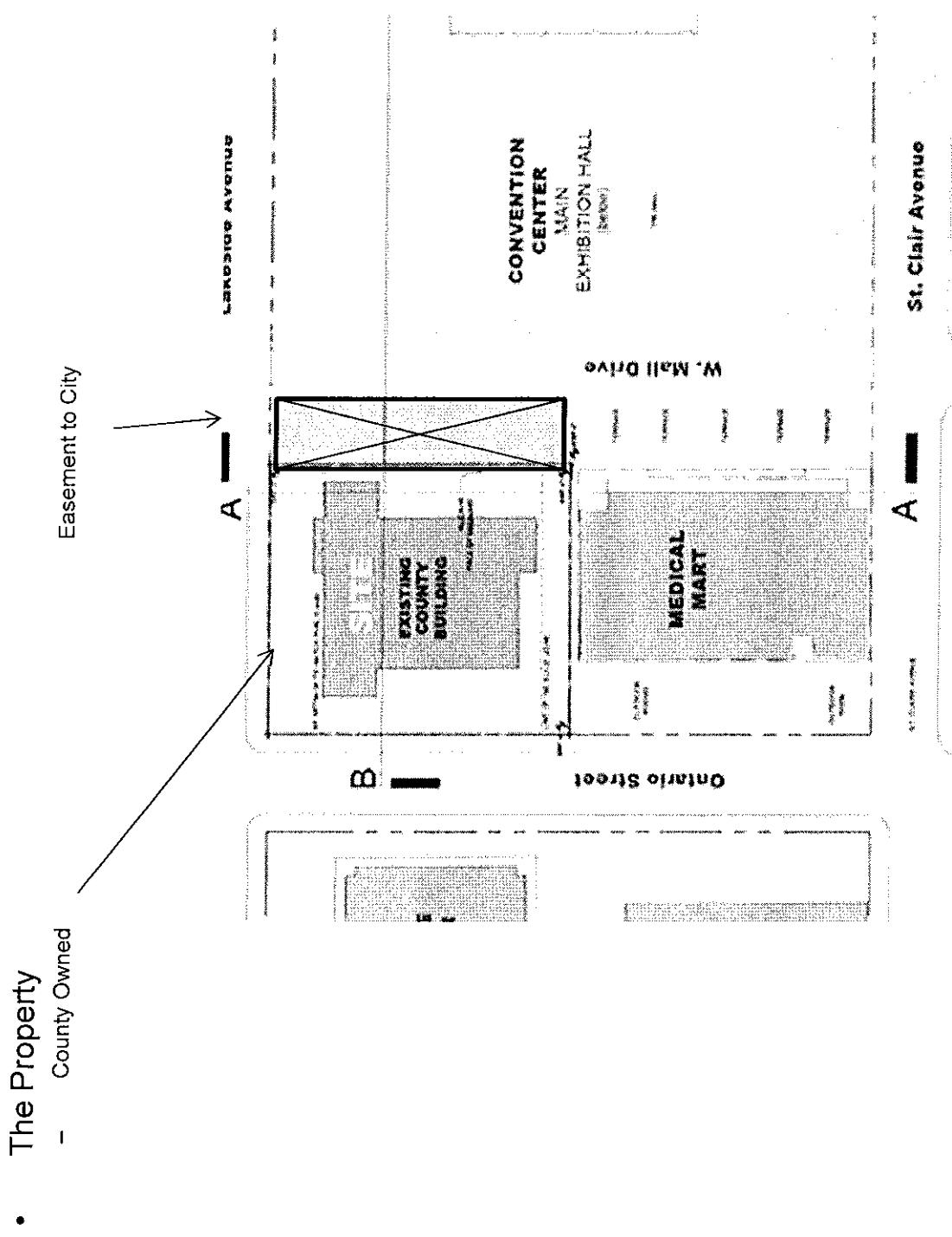
- Proposals received from hotel operators characterize estimated annual operating activity of for the hotel project as follows for stabilized year:
- Room Revenue: \$26,000,000
- Other Revenue: 19,000,000
- Total Revenue 45,000,000
- Operating Cost and Reserves: 37,000,000
- Net Income: \$ 8,000,000 (17.8% of Total Revenue)

- Net income from the hotel project, as applied to the bonds, pays for about 40% of project cost.

Comparison to Other Projects

	Austin, Texas	Denver, Colorado	St. Louis, Missouri	Columbus, Ohio
Year Opened	2003	2005	2001	2012
Project Cost	\$ 280,000,000	\$ 250,000,000	\$ 250,000,000	\$ 140,000,000
Rooms	800	1100	990	500
2012 ADR	\$ 196.00	\$ 170.00	\$ 126.00	\$ 146.00 p
2012 Occupancy %	77%	74%	65%	66% p
2012 Net as % of Total Revenue	51%	32%	10%	17% p
Primary Financing	Tax-exempt bonds	Tax-exempt bonds	Tax-exempt bonds	Tax-exempt bonds

Property Ownership/Governance



Property Ownership/Governance

Cooperative Agreement among County, City and Port Authority

- County will agree to transfer the administration building property to the City to support the tax increment financing;
- City will agree to transfer the Property to the Port Authority to support the cooperative financing plan; and
- Port Authority will agree to lease the Property to the County in conjunction with the financing
- Provision will be made for the Property to revert to the County if the cooperative financing plan and the project are not consummated by a certain date
- City and Port Authority will provide a license for the County to be on the Property for purposes of demolition and construction. Licenses will cover the period of time from County transfer of the Property to the City through Port Authority lease of the Property to the County
- The County's transfer of its interest in the administration building property (and lease of the Property from the Port Authority) supports the utilization of County certificates of participation (COPs) to finance the project. Those certificates of participation feature "subject to appropriation lease payments" to be made to a bank trustee pursuant to the lease from the Port Authority to the County.

Financing/Governance Estimated Timetable

- County Council and City Council consider a Cooperative Agreement related to certain contributions to the hotel project, development, construction, and operation of the project, between the County, the City of Cleveland, and the Port of Cleveland: August –September 2013
- City Council considers a transfer of land from the County and transfer to Port: September 2013
- City Council considers tax increment finance legislation: October 2013
- County Council considers legislation to authorize financing arrangements: November 2013
- Develop documentation for financing arrangements: December 2013
- Credit rating and transaction preparation: January-February 2014
- Completion of design development phase of project, agreement on GMP with Design Builder and issuance of County certificates of participation: February-March 2014

Questions?